

NYCTL 1998-2 TRUST
Financial Statements
Years ended June 30, 2014 and 2013
(With Independent Auditors' Report)

NYCTL 1998-2 TRUST

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INDEPENDENT AUDITORS' REPORT

Wilmington Trust Company
NYCTL 1998-2 Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the NYCTL 1998-2 Trust (the Trust), a blended component unit of the City of New York, as of June 30, 2014 and 2013 and for the years then ended and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, as of June 30, 2014 and 2013, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Trust's financial statements as a whole. The supplemental schedule on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2014, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Trust's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
October 6, 2014

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of NYCTL 1998-2 (the "Trust") for the fiscal years ended June 30, 2014, 2013 and 2012. It should be read in conjunction with Trust's government-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; and (3) the governmental fund financial statements.

The government-wide financial statements of the Trust, which include the statements of net position and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of the Trust's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Trust's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are considered available if received within twelve months after the fiscal year-end. Expenditures are recognized when the related liability is incurred, except for the residual liability due to the New York City Water Board (the "Water Board"), which is recognized when distributions are made to the Water Board.

On June 4, 2013 the Trust formed a limited liability company NYCTL Brownfield LLC ("Brownfield") and transferred certain tax liens to Brownfield. The Trust is the sole member of Brownfield. All of the governmental activities of Brownfield are accounted for as a blended component unit of the Trust and reported in the fund financial statements as a special revenue fund.

The reconciliations of the governmental fund balance sheets to the statements of net position and the reconciliations of the governmental fund statements of revenues, expenditures and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and governmental fund financial statements.

OVERVIEW OF THE ORGANIZATION

The Trust was created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other charges, payable to The City of New York (the "City") and the Water Board, in exchange for the proceeds from bonds issued by the Trust, net of reserves funded by bond proceeds and bond issuance costs. The City is the sole beneficiary of the Trust and is entitled to receive distributions from the Trust after payments to bondholders and certain reserve requirements have been satisfied.

Implementation of New Accounting Standards:

The Trust implemented GASB Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* and No. 65 *Items Previously Reported As Assets and Liabilities* during the fiscal year ended June 30, 2013. The implementation of these two GASB Statements resulted in the government-wide financial statements reporting of net position instead of net assets, including the renaming of the Statement of Net Assets to the Statement of Net Position. In addition, bond issuance costs in the amount of \$2,310,609, which would have been reported in the government-wide financial statements as an asset and amortized over the life of the related debt under prior standards, were incurred in the fiscal year ended June 30, 2012 and were reported as an expense for that year. In addition, unearned revenue in the general fund of \$153,848,505, \$127,811,264 and \$143,440,659 is recorded as a deferred inflow of resources as of June 30, 2014, 2013 and 2012, respectively, under the new standards.

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Trust entered into an agreement (the "2013 Agreement") with NYCTL 2011-A Trust (the "2013 Transferee") dated and effective as of November 29, 2013, whereby the 2013 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2013 Agreement, the Trust will pay all administrative expenses of the 2013 Transferee incurred after November 29, 2013 and any costs associated with the transfer.

A summary of the assets and liabilities transferred from the 2013 Transferee on November 29, 2013 is as follows:

ASSETS:	
Cash and cash equivalents	\$ 96,221
Investments	10,807,366
Tax liens receivable – net of \$6,847,945 allowance	<u>48,549,220</u>
TOTAL ASSETS	<u>59,452,807</u>
LIABILITIES:	
Accounts payable and accrued expenses	65,968
Overages due to taxpayers	(19,284)
Residual liability due to Water Board	<u>9,041,313</u>
TOTAL LIABILITIES	<u>9,087,997</u>
NET POSITION	<u>\$ 50,364,810</u>

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

**FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS
(CONTINUED)**

During fiscal year 2014, the Trust's total assets increased by \$31,367,494 primarily reflecting an increase in net tax liens receivable of \$27,831,033, an increase in restricted investments of \$3,339,353 and an increase in cash and cash equivalents of \$197,108. The increase in tax liens receivable resulted primarily from tax liens received from the City of \$45,964,276, accrued interest of \$71,528,939 and transfer of net tax liens receivable of \$48,549,220 from the 2013 Transferee offset by cash collections of the tax liens totaling \$43,011,185, write-offs of uncollectible liens of \$11,183,157, and an increase in the allowance for doubtful accounts of \$84,017,060. The \$4,550,223 increase in the Trust's liabilities resulted primarily from an increase in the residual liability due to the Water Board of \$3,314,777 and an increase in accounts payable of \$1,320,860 offset by a decrease in the overages due to (from) taxpayers of \$85,414.

During fiscal year 2014, the Trust's total revenues were \$117,494,314. Revenues were primarily due to tax liens received from The City of New York of \$45,964,276, and the recording of interest on tax liens receivable of \$71,528,939. Total expenses of \$141,041,853 resulted primarily from distributions to the City of \$39,001,800, an increase in the allowance for doubtful accounts to \$84,017,060, write-offs of uncollectible liens of \$11,183,157, administrative expenses of \$5,046,037 and an addition to the residual liability due to the Water Board of \$1,793,799.

During fiscal year 2013, the Trust's total assets decreased by \$11,915,302 primarily reflecting a decrease in net tax liens receivable of \$8,995,183 and a decrease in restricted investments of \$3,183,910 offset by an increase in cash and cash equivalents of \$263,791. The decrease in tax liens receivable resulted primarily from cash collections of the tax liens net of capitalized costs reimbursed totaling \$42,899,781, write-offs of uncollectible liens of \$25,131,869 and an increase in the allowance for doubtful accounts of \$10,844,905 offset by tax liens received from The City of New York of \$15,293,056 and accrued interest of \$54,588,316. The \$7,326,087 decrease in the Trust's liabilities resulted primarily from a decrease in the residual liability to the Water Board \$4,908,708, a decrease in accounts payable of \$2,304,665 and a decrease in the overages due to taxpayers of \$112,714.

During fiscal year 2013, the Trust's total revenues were \$69,887,875. Revenues were primarily due to tax liens received from The City of New York of \$15,293,056, and the recording of interest on tax liens receivable of \$54,588,316. Total expenses of \$74,477,090 resulted primarily from distributions to the City of \$30,521,934, write-offs of uncollectible liens of \$25,131,869, administrative expenses of \$4,968,301, an increase in the allowance for doubtful accounts to \$10,844,905 and by an increase in the residual liability due to the Water Board of \$3,010,081.

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Trust uses a general fund ("GF") for reporting its activities as all transactions and expenditures relate to the Trust's operations. The Trust formed Brownfield during 2012, which is accounted for by the Trust as a blended component unit. As Brownfield only has a general fund, its activities are reflected by the Trust as a special revenue fund.

The following summarizes the changes in the GF balances for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	2012	Variance	
				2014/2013	2013/2012
Revenues:					
Tax liens received from NYC	\$ 45,964,276	\$ 15,293,056	\$ -	\$ 30,671,220	\$ 15,293,056
Interest on tax liens	65,500,071	54,096,365	48,947,324	11,403,706	5,149,041
Decrease in unearned revenues	12,907,389	15,629,395	16,389,931	(2,722,006)	(760,536)
Other income - other	-	5,827	-	(5,827)	5,827
Other income - investment income	1,099	676	531	423	145
Total revenue	124,372,835	85,025,319	65,337,786	39,347,516	19,687,533
Expenses:					
Distributions to The City of New York of New York	39,001,800	30,521,934	18,527,524	8,479,866	11,994,410
Distributions to the Water Board	7,520,335	7,918,789	4,925,038	(398,454)	2,993,751
Increase (decrease) in allowance for doubtful accounts	77,862,599	(60,700,316)	40,981,693	138,562,915	(101,682,009)
Write-offs of uncollectible liens, net of recoveries	11,308,749	25,131,869	5,848,405	(13,823,120)	19,283,464
Trust administrative expenses	4,978,916	4,968,017	3,884,498	10,899	1,083,519
Total expenses	140,672,399	7,840,293	74,167,158	132,832,106	(66,326,865)
Other Financing Sources (Uses)					
Transfer of funds to component unit	-	(500,000)	-	500,000	(500,000)
Transfer of tax liens to component unit	-	(71,053,270)	-	71,053,270	(71,053,270)
Total other financing sources (uses)	-	(71,553,270)	-	71,553,270	(71,553,270)
Net Change in Fund Balance	(16,299,564)	5,631,756	(8,829,372)	(21,931,320)	14,461,128
Transfers from other New York City Tax Lien trusts	20,461,493	-	9,365,030	20,461,493	(9,365,030)
Fund Balance, Beginning of Year	32,432,176	26,800,420	26,264,762	5,631,756	535,658
Fund Balance, End of Year	\$ 36,594,105	\$ 32,432,176	\$ 26,800,420	\$ 4,161,929	\$ 5,631,756

During fiscal year 2014, revenues in the GF were \$124,372,835 and consisted of Tax Liens received from the City of New York of \$45,964,276, the recording of interest on tax liens receivable of \$65,500,071, decrease in unearned revenues of \$12,907,389 and investment income of \$1,099. Total deductions from the GF of \$140,672,399 resulted primarily from distributions to the City and the Water Board of \$46,522,135, write-offs of uncollectible liens of \$11,308,749, administrative expenses of \$4,978,916 and an increase in the allowance for doubtful accounts of \$77,862,599. The GF's fund balance was also increased by \$20,461,493 as a result of the transfer of assets and liabilities from the 2013 Transferee. The transfers from the other New York City Tax Lien trusts reflected in the GF are net of the portion of the increase in tax liens receivable resulting from the transfers that are not currently available since they are not expected to be collected within twelve months after year-end.

During fiscal year 2013, revenues in the GF were \$85,025,319 and consisted of Tax Liens received from New York City of \$15,293,056, the recording of interest on tax liens receivable of \$54,096,365, decrease in unearned revenues of \$15,629,395, other income of \$5,827 and investment income of \$676. Total deductions from the GF of \$7,840,301 resulted primarily from distributions to the City and the Water Board of \$38,440,723, write-offs of uncollectible liens of \$25,131,869, administrative expenses of \$4,968,025 offset by a decrease in the allowance for doubtful accounts of \$60,700,316. Other financing uses reflect transfers to component unit of \$500,000 and transfer of tax liens of \$71,053,270.

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Variance	
				2014/2013	2013/2012
Assets:					
Cash and cash equivalents	\$ 580,538	\$ 316,308	\$ 552,233	\$ 264,230	\$ (235,925)
Miscellaneous receivable	13,045,150	9,705,797	12,889,707	3,339,353	(3,183,910)
Tax liens receivable, net of allowance	180,081,319	152,250,286	161,245,469	27,831,033	(8,995,183)
Total Assets	\$ 193,707,007	\$ 162,272,391	\$ 174,687,409	\$ 31,434,616	\$ (12,415,018)
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,362,597	\$ 2,041,737	\$ 4,346,402	\$ 1,320,860	\$ (2,304,665)
Overages due to taxpayers	(98,200)	(12,786)	99,928	(85,414)	(112,714)
Total Liabilities	3,264,397	2,028,951	4,446,330	1,235,446	(2,417,379)
Deferred Inflows of Resources- unearned revenues	153,848,505	127,811,264	143,440,659	26,037,241	(15,629,395)
Fund Balance:					
Restricted by contractual agreements	13,045,150	9,705,797	12,889,707	3,339,353	(3,183,910)
Unassigned	23,548,955	22,726,379	13,910,713	822,576	8,815,666
Total Fund Balance	36,594,105	32,432,176	26,800,420	4,161,929	5,631,756
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 193,707,007	\$ 162,272,391	\$ 174,687,409	\$ 31,434,616	\$ (12,415,018)

During fiscal year 2014, the Trust's total assets increased by \$31,434,616 primarily reflecting an increase in net tax liens receivable of \$27,831,033 and an increase in restricted investments of \$3,339,353 and a increase in cash and cash equivalents of \$264,230. The increase in tax liens receivable resulted primarily from tax liens received from the City of \$45,964,276, accrued interest of \$65,500,071 and transfer of net tax liens receivable of \$48,549,220 from the 2013 Transferee offset by cash collections of the tax liens totaling \$43,011,185, write-offs of uncollectible liens of \$11,308,749, and an increase in the allowance for doubtful accounts of \$77,862,599. The \$26,037,241 increase in the GF's deferred inflows of resources resulted from an increase in unearned revenues. The \$1,235,446 increase in liabilities resulted primarily from an increase in accounts payable of \$1,320,860 offset by a decrease in the overages to (from) taxpayers of \$85,414.

During fiscal year 2013, the Trust's total assets decreased by \$12,415,018 primarily reflecting a decrease in net tax liens receivable of \$8,995,183 and a decrease in restricted investments of \$3,183,910 and a decrease in cash and cash equivalents of \$235,925. The decrease in tax liens receivable resulted primarily from cash collections of the tax liens net of capitalized costs reimbursed totaling \$42,899,781, write-offs of uncollectible liens of \$25,131,869 and the transfer of tax liens to the component unit of \$71,053,270 offset by tax liens received from The City of New York of \$15,293,056, accrued interest of \$54,096,365 and a decrease in the allowance for doubtful accounts of \$60,700,316. The \$15,629,395 decrease in the GF's deferred inflows of resources resulted from a decrease in unearned revenues. The \$2,417,379 decrease in liabilities resulted from a decrease in accounts payable of \$2,304,665 and a decrease in the overages to taxpayers of \$112,714.

**NYCTL 1998-2 TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)

The following summarizes the financial activities of the Trust's blended component unit, Brownfield, for the years ended June 30, 2014 and 2013, which are reported as a special revenue fund:

	<u>2014</u>	<u>2013</u>
Revenues:		
Interest on tax liens	\$ 6,028,868	\$ 491,951
Total revenue	<u>6,028,868</u>	<u>491,951</u>
Expenses:		
Increase in allowance for doubtful accounts	6,154,461	71,545,221
Bad debt recoveries	(125,592)	-
Trust administrative expenses	<u>67,121</u>	<u>284</u>
Total expenses	<u>6,095,990</u>	<u>71,545,505</u>
Other Financing Sources (Uses)		
Transfers from general fund	-	500,000
Transfer of tax liens from general fund	<u>-</u>	<u>71,053,270</u>
Total other financing sources (uses)	-	71,553,270
Net Change in Fund Balance	(67,122)	499,716
Fund Balance, Beginning of Year	<u>499,716</u>	-
Fund Balance, End of Year	<u>\$ 432,594</u>	<u>\$ 499,716</u>

During fiscal year 2014, total revenue of Brownfield consisted of interest on tax liens of \$6,028,868. Total expenses of Brownfield consisted primarily of an increase in allowance for doubtful accounts of \$6,154,461.

During fiscal year 2013, total revenue of Brownfield consisted of interest on tax liens of \$491,951. Total expenses of Brownfield consisted of an increase in allowance for doubtful accounts of \$71,545,221 and administrative expenses of \$284. Other financing sources reflect transfers of funds from the GF of \$500,000 and transfer of tax liens from the GF of \$71,053,270.

As of June 30, 2014 the assets of Brownfield consisted of cash and cash equivalents of \$432,594. Brownfield's tax liens receivable of \$77,699,682 was offset by an allowance for doubtful accounts of the same amount.

As of June 30, 2013 the assets of Brownfield consisted of cash and cash equivalents of \$499,716. Brownfield's tax liens receivable of \$71,545,221 was offset by an allowance for doubtful accounts of the same amount.

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of New York's citizens, taxpayers, customers, investors, and creditors with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

NYC Office of Management and Budget
255 Greenwich Street, 7th Floor
New York, New York 10007

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**NYCTL 1998-2 TRUST
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS:		
Cash and cash equivalents	\$ 1,013,132	\$ 816,024
Restricted investments	13,045,150	9,705,797
Tax liens receivable:		
Principal	274,493,334	215,058,365
Accrued interest	239,114,295	170,109,348
Accrued capitalized costs	18,348,941	28,092,819
Less: allowance for uncollectible accounts	<u>(351,875,251)</u>	<u>(261,010,246)</u>
Net tax liens receivable	<u>180,081,319</u>	<u>152,250,286</u>
TOTAL ASSETS	<u>194,139,601</u>	<u>162,772,107</u>
 LIABILITIES:		
Accounts payable and accrued liabilities	3,362,597	2,041,737
Overages due to taxpayers	(98,200)	(12,786)
Residual liability due to Water Board	<u>33,546,728</u>	<u>30,231,951</u>
TOTAL LIABILITIES	<u>36,811,125</u>	<u>32,260,902</u>
 NET POSITION:		
Restricted by contractual agreements	13,045,150	9,705,797
Unrestricted	<u>144,283,326</u>	<u>120,805,408</u>
TOTAL NET POSITION	<u>\$ 157,328,476</u>	<u>\$ 130,511,205</u>

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
REVENUES:		
Tax Liens received from The City of New York	\$ 45,964,276	\$ 15,293,056
Interest on tax liens	71,528,939	54,588,316
Other income-other	-	5,827
Other income - investment income	1,099	676
Total revenues	117,494,314	69,887,875
EXPENSES:		
Distributions to The City of New York	39,001,800	30,521,934
Increase in allowance for doubtful accounts	84,017,060	10,844,905
Addition to residual liability due to Water Board	1,793,799	3,010,081
Write-offs of uncollectible liens, net of recoveries	11,183,157	25,131,869
Trust administrative expenses:		
Servicer fees	2,711,397	2,715,208
Trustee fees	531,667	604,001
Financial advisor/management fees	963,575	1,095,000
Lien and other expenses	839,398	554,092
Total administrative expenses	5,046,037	4,968,301
Total expenses	141,041,853	74,477,090
Net change in net position before transfers	(23,547,539)	(4,589,215)
Transfers from other New York City Tax Lien Trust	50,364,810	-
Net position - Beginning of year	130,511,205	135,100,420
Net position - End of year	\$ 157,328,476	\$ 130,511,205

See accompanying notes to financial statements.

**NYCTL 1998-2 TRUST
GOVERNMENTAL FUNDS BALANCE SHEETS
JUNE 30, 2014**

	General Fund	Special Revenue Fund - Brownfield	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 580,538	\$ 432,594	\$ 1,013,132
Restricted investments	13,045,150	-	13,045,150
Tax liens receivable:			
Principal	203,314,471	71,178,863	274,493,334
Accrued interest	232,593,476	6,520,819	239,114,295
Accrued capitalized costs	18,348,941	-	18,348,941
Less: allowance for uncollectible accounts	<u>(274,175,569)</u>	<u>(77,699,682)</u>	<u>(351,875,251)</u>
Net tax liens receivable	<u>180,081,319</u>	<u>-</u>	<u>180,081,319</u>
TOTAL ASSETS	<u>193,707,007</u>	<u>432,594</u>	<u>194,139,601</u>
 LIABILITIES:			
Accounts payable and accrued liabilities	3,362,597	-	3,362,597
Overages due to taxpayers	<u>(98,200)</u>	<u>-</u>	<u>(98,200)</u>
TOTAL LIABILITIES	<u>3,264,397</u>	<u>-</u>	<u>3,264,397</u>
 DEFERRED INFLOWS OF RESOURCES -			
unearned revenues	<u>153,848,505</u>	<u>-</u>	<u>153,848,505</u>
 FUND BALANCE:			
Restricted by contractual agreements	13,045,150	-	13,045,150
Committed	-	432,594	432,594
Unassigned	<u>23,548,955</u>	<u>-</u>	<u>23,548,955</u>
TOTAL FUND BALANCE	<u>36,594,105</u>	<u>432,594</u>	<u>37,026,699</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 193,707,007</u>	<u>\$ 432,594</u>	<u>\$ 194,139,601</u>

See accompanying notes to financial statements.

**NYCTL 1998-2 TRUST
GOVERNMENTAL FUNDS BALANCE SHEETS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund - Brownfield</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 316,308	\$ 499,716	\$ 816,024
Restricted investments	9,705,797	-	9,705,797
Tax liens receivable:			
Principal	143,513,144	71,545,221	215,058,365
Accrued interest	170,109,348	-	170,109,348
Accrued capitalized costs	28,092,819	-	28,092,819
Less: allowance for uncollectible accounts	<u>(189,465,025)</u>	<u>(71,545,221)</u>	<u>(261,010,246)</u>
Net tax liens receivable	<u>152,250,286</u>	<u>-</u>	<u>152,250,286</u>
TOTAL ASSETS	<u>162,272,391</u>	<u>499,716</u>	<u>162,772,107</u>
 LIABILITIES:			
Accounts payable and accrued liabilities	2,041,737	-	2,041,737
Overages due to taxpayers	<u>(12,786)</u>	<u>-</u>	<u>(12,786)</u>
TOTAL LIABILITIES	<u>2,028,951</u>	<u>-</u>	<u>2,028,951</u>
 DEFERRED INFLOWS OF RESOURCES -			
unearned revenues	<u>127,811,264</u>	<u>-</u>	<u>127,811,264</u>
 FUND BALANCES:			
Restricted by contractual agreements	9,705,797	-	9,705,797
Committed	-	499,716	499,716
Unassigned	<u>22,726,379</u>	<u>-</u>	<u>22,726,379</u>
TOTAL FUND BALANCES	<u>32,432,176</u>	<u>499,716</u>	<u>32,931,892</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 <u>\$ 162,272,391</u>	 <u>\$ 499,716</u>	 <u>\$ 162,772,107</u>

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
RECONCILIATIONS OF THE GOVERNMENTAL FUND BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

	2014	2013
Total fund balance - governmental funds	\$ 37,026,699	\$ 32,931,892
Amounts reported for governmental activities in the statements of net position are different because:		
Revenue accrued but not received within twelve months after the year's end is unearned in the governmental funds financial statements because it is not currently available; however, it is recognized as revenue in the statements of net position.	153,848,505	127,811,264
Some liabilities are not due and payable in the current period from currently available financial resources and therefore are not reported in the governmental funds financial statements. These liabilities consist of:		
Residual liability due to Water Board	(33,546,728)	(30,231,951)
Net position of governmental activities	\$ 157,328,476	\$ 130,511,205

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPEDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund - Brownfield</u>	<u>Total Governmental Funds</u>
REVENUES:			
Tax Liens received from the City of New York	\$ 45,964,276	\$ -	\$ 45,964,276
Interest on tax liens	65,500,071	6,028,868	71,528,939
Decrease in unearned revenues	12,907,389	-	12,907,389
Other income-other	-	-	-
Other income - investment income	1,099	-	1,099
Total revenues	<u>124,372,835</u>	<u>6,028,868</u>	<u>130,401,703</u>
EXPENDITURES:			
Distributions to The City of New York	39,001,800	-	39,001,800
Distributions to the Water Board	7,520,335	-	7,520,335
Increase in allowance for doubtful accounts	77,862,599	6,154,461	84,017,060
Write-offs of uncollectible liens, net of recoveries	11,308,749	(125,592)	11,183,157
	<u>135,693,483</u>	<u>6,028,869</u>	<u>141,722,352</u>
Trust administrative expenses:			
Servicer fees	2,644,276	67,121	2,711,397
Trustee fees	531,667	-	531,667
Financial advisor/management fees	963,575	-	963,575
Lien and other expenses	839,398	-	839,398
Total administrative expense	<u>4,978,916</u>	<u>67,121</u>	<u>5,046,037</u>
Total expenditures	<u>140,672,399</u>	<u>6,095,990</u>	<u>146,768,389</u>
NET CHANGE IN FUND BALANCES	(16,299,564)	(67,122)	(16,366,686)
Transfers from other New York City Tax Lien Trust	20,461,493	-	20,461,493
Fund balances - Beginning of year	<u>32,432,176</u>	<u>499,716</u>	<u>32,931,892</u>
Fund balances - End of year	<u>\$ 36,594,105</u>	<u>\$ 432,594</u>	<u>\$ 37,026,699</u>

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPEDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund - Brownfield	Total Governmental Funds
REVENUES:			
Tax Liens received from the City of New York	\$ 15,293,056	\$ -	\$ 15,293,056
Interest on tax liens	54,096,365	491,951	54,588,316
Decrease in unearned revenues	15,629,395	-	15,629,395
Other income - other	5,827	-	5,827
Other income - investment income	676	-	676
Total revenues	85,025,319	491,951	85,517,270
EXPENDITURES:			
Distributions to The City of New York	30,521,934	-	30,521,934
Distributions to the Water Board	7,918,789	-	7,918,789
(Decrease) increase in allowance for doubtful accounts	(60,700,316)	71,545,221	10,844,905
Write-offs of uncollectible liens, net of recoveries	25,131,869	-	25,131,869
	2,872,276	71,545,221	74,417,497
Trust administrative expenses:			
Servicer fees	2,715,208	-	2,715,208
Trustee fees	604,001	-	604,001
Financial advisor/management fees	1,095,000	-	1,095,000
Lien and other expenses	553,808	284	554,092
Total administrative expense	4,968,017	284	4,968,301
Total expenditures	7,840,293	71,545,505	79,385,798
OTHER FINANCING SOURCES (USES):			
Transfers from general fund to component unit	(500,000)	500,000	-
Transfer of tax liens from general fund to component unit	(71,053,270)	71,053,270	-
Total other financing sources (uses)	(71,553,270)	71,553,270	-
NET CHANGE IN FUND BALANCES	5,631,756	499,716	6,131,472
Fund balances - Beginning of year	26,800,420	-	26,800,420
Fund balances - End of year	\$ 32,432,176	\$ 499,716	\$ 32,931,892

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
RECONCILIATIONS OF THE GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Net change in fund balances - governmental funds	\$ (16,366,686)	\$ 6,131,472
Amounts reported in the statement of activities are different because:		
The net change in the residual liability due to Water Board was reported in the statements of activities as an expense but amounts related to the liability due to Water Board are reported as an expenditure in the governmental funds financial statements when current financial resources are distributed to the Water Board.	(1,793,799)	(3,010,081)
Distributions paid to the Water Board are an expenditure in the governmental fund financial statements, but the distributions reduce the long-term residual liability due to Water Board on the statements of net position.	7,520,335	7,918,789
The increase (decrease) in the unearned revenue is reported as a revenue or expenditure in the governmental funds financial statements but not as a deferred inflows of resources in the government wide financial statements. This is because the tax liens receivable are reported at their net realizable value in the statement of net position, however the portion which is not expected to be collected within one year is considered unavailable and recorded as a deferred inflow of resources, unearned revenue, in the governmental funds.	(12,907,389)	(15,629,395)
The transfers from various New York City Tax Lien trusts reflected as other financing sources in the governmental funds statements is net of the amount attributable to unearned revenue but unearned revenue is not reported in the government wide financial statements. This is because the tax liens receivable are reported at their net realizable value in the statement of net position, however the portion which is not expected to be collected within one year are considered unavailable and recorded as unearned revenue in governmental funds.	50,364,810	-
Change in net position - governmental activities	\$ 26,817,271	\$ (4,589,215)

See accompanying notes to financial statements.

**NYCTL 1998-2 TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

NYCTL 1998-2 Trust (the "Trust") is a Delaware statutory trust formed in 1998. The Trust is governed by the Fourth Amended and Restated Declaration and Agreement of Trust dated March 31, 2009 between The City of New York (the "City") and the Wilmington Trust Company of Wilmington, Delaware (the "Owner Trustee"). Tax lien sales are authorized by Chapter 3 of Title 11 of the Administrative Code of The City of New York. In accordance with a purchase and sale agreement between the Trust and the City, the Trust was created to acquire certain tax liens (Note 5) from the City in exchange for the proceeds from bonds issued by the Trust, net of reserves funded by bond proceeds and bond issuance costs.

On June 4, 2013, the Trust formed a limited liability company, NYCTL Brownfield LLC ("Brownfield"). The Trust is the sole member of Brownfield. All of the governmental activities of Brownfield are accounted for as a blended component unit of the Trust and reported in the fund financial statements as a special revenue fund.

Although legally separate from the City, the Trust is an instrumentality of The City and, accordingly, is included in the City's financial statements as a blended component unit.

The City is the sole beneficiary of the Trust and is entitled to receive distributions from the Trust after certain reserve requirements have been satisfied. As certain tax liens secure unpaid water and sewer rents and sewer surcharges, the City and the New York City Water Board ("Water Board") have agreed that the City and the Water Board will share in the distributions and residual assets of the Trusts (see Note 2D).

The Trust issued Tax Lien Collateralized Bonds, Series 1998-2, which were secured solely by the assets of the Trust, consisting primarily of tax liens, and were not an obligation of the City. The bonds were fully retired and no subsequent bonds have been issued.

The Trust does not have any employees. In addition to its interaction with various City agencies, the Trust's affairs are administered by the Owner Trustee, its program manager, tax lien servicer, paying agent and investment custodian.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Trust determined that its financial operations were more closely aligned with governmental activities. Accordingly, the Trust restated its 2011 financial statements to reflect its operations as governmental activities rather than as fiduciary activities. The Trust now reports its activities in government-wide and governmental fund financial statements.

The government-wide financial statements of the Trust, which include the statements of net position and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Trust's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for the residual liability due to the Water Board, which is recognized when distributions are made to the Water Board.

The Trust uses a general fund ("GF") for reporting its activities as all transactions and expenditures relate to the Trust's operations. The Trust reports its blended component unit, Brownfield, as a special revenue fund. Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Trust is the sole member of Brownfield and its highest level decision-making authority. The Trust may modify the commitment of Brownfield's fund balance.

The Trustee of the Trust upon duly executed direction from the City constitutes the Trust's highest level of decision-making authority. When resolutions are adopted by the Trustee that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by the Trustee. There is no authority under which fund balances may be internally constrained.

**NYCTL 1998-2 TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund balances which are constrained for use for a specific purpose, based on the direction of any officer of the Trust who is duly authorized due to executed direction from the City to direct the movement of such funds, are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same or another duly authorized officer, or by the Trustee, is taken which removes or changes the assignment.

When both restricted and unrestricted resources are available for use for a specific purpose, it is the Trust's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is the Trust's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

- B. Certain Trust investments are classified as restricted assets because their use is limited by applicable contractual agreements. Cash equivalents include short-term investments with maturities of three months or less at date of acquisition. Investments, including accrued interest, are reported at fair value.
- C. The Trust records tax lien receivables based on the amounts that are receivable for real estate taxes, water rents, sewer surcharges, and other charges. Interest that accrues on the outstanding balances as well as certain other costs, such as public notices that can be recovered from the taxpayer as part of the tax lien balance are capitalized. The Trust establishes an allowance for doubtful accounts by comparing tax lien receivable balances with the estimated fair value of the properties subject to the liens as provided by the City. The Trust also considers certain factors related to specific properties, such as environmental issues, and where other tax liens have legal priority over the Trust's tax liens in determining the adequacy of its allowance for doubtful accounts.
- D. The City and the Water Board have agreed to share in the distributions and residual assets of the Trust in accordance with the fixed percentages of 81.60% and 18.40%, respectively. As the City is the sole beneficiary of the net position of the Trusts, the amounts that would be due to the Water Board under this agreement are recorded as a general long-term liability for financial reporting purposes.
- E. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Trust's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of additions and deductions in fiduciary net position during the reporting period. Actual results could differ from those estimates.
- F. The Trust implemented GASB Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* and No. 65 *Items Previously Reported As Assets and Liabilities* during the fiscal year ended June 30, 2013. The implementation of these two GASB Statements resulted in the government-wide financial statements reporting of net position instead of net assets, including the renaming of the Statement of Net Assets to the Statement of Net Position. In addition, bond issuance costs in the amount of \$2,310,609, which would have been reported in the government-wide financial statements as an asset and amortized over the life of the related debt under prior standards, were incurred in the fiscal year ended June 30, 2012 and were reported as an expense for that year. In addition, unearned revenue in the general fund of \$153,848,505 and \$127,811,264 is recorded as a deferred inflow of resources as of June 30, 2014 and 2013, respectively, under the new standards.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Trust's cash and cash equivalents consisted of cash in demand deposit accounts and money market funds. As of June 30, 2014 total cash and cash equivalents were \$1,013,132 of which \$478,116 was in excess of Federal Deposit Insurance Corporation coverage. As of June 30, 2013 total cash and cash equivalents were \$816,024 of which \$566,024 was in excess of Federal Deposit Insurance Corporation Coverage.

**NYCTL 1998-2 TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – RESTRICTED INVESTMENTS

The Trust has limited its investments to those eligible investments specified in its agreement with its paying agent and investment custodian, which is The Bank of New York. The eligible investments are obligations of, or guaranteed by, the U.S. government; Fannie Mae, Freddie Mac or the Federal Farm Credit System; certain highly-rated certificates of deposit (or similar instruments), certain highly-rated municipal obligations; certain highly-rated commercial paper (or similar instruments), certain investment agreements with highly-rated institutions; certain repurchase obligations with highly-rated institutions, certain highly-rated corporate securities (that do not exceed 20% of its investments); and certain highly-rated taxable money market funds.

The Trust is required under contractual agreements to maintain separate accounts, representing restricted investments:

- 1) Collection Account – an account established by the paying agent, which receives daily transfers from lockbox accounts to which payments received from property owners on tax liens are deposited. The paying agent used this account to make principal and interest payments on the bonds, as well as payments for other expenses of the Trust, in the order of priority specified in the bond indenture.
- 2) Working Capital Reserve Fund – initially funded out of proceeds from the sale of bonds in the amount of \$4,000,000, this fund is used to pay lien administration expenses and the base fee to the tax lien servicers to the extent amounts on deposit in the Bond Account are insufficient for such purpose. The Working Capital Reserve Fund is replenished from the Bond Account.

As of June 30, 2014 and 2013, the amounts held in each of these funds were as follows:

	<u>2014</u>	<u>2013</u>
Working Capital Reserve Fund	\$ 656,768	\$ 2,943,612
Collection Account	<u>12,388,382</u>	<u>6,762,185</u>
Total Restricted Investments	<u>\$ 13,045,150</u>	<u>\$ 9,705,797</u>

All of the restricted funds were invested in various short-term investment funds. During the fiscal years ended June 30, 2014 and 2013, the short-term investment fund was Goldman Financial SQ Prime Oblig which carries a rating of AAA by Standard & Poors and AAA by Moody's Investor Services, Inc., with a weighted average maturity of 50 days.

NOTE 5 – TAX LIENS RECEIVABLE

A tax lien is a lien on a parcel of real estate located in the City securing unpaid real property taxes, assessments, sewer rents, sewer surcharges, water rents, and other City charges, such as environmental charges, Department of Housing Preservation and Development charges and business improvement district charges. In addition to these unpaid items, a tax lien also includes the costs of any advertisements and notices given in connection with the sale of the tax lien, that had become a lien against the property prior to the sale of the lien to the Trust, and interest and penalties accrued at various rates up to the time of sale of the lien to the Trust. In addition, a tax lien also includes a surcharge of 5% on all of the aforementioned amounts computed through the date of the sale to the Trust. The total of these amounts described in this paragraph represents the tax lien principal balance as of the date of the sale to the Trust. The City was required to redeem or replace any tax liens that are determined to be defective, in accordance with the provisions of the bond indenture. As the bond indenture has been discharged, the City may elect to reduce its distributions for defective liens.

Subsequent to the purchase of the tax liens by the Trust, the tax liens accrue interest at the annual rate of 9% or 18% depending on the underlying assessed value of the properties to which the liens are attached, compounded daily. In addition, certain costs incurred by the Trust are eligible to be capitalized as part of the tax lien balance. Special rules for calculating tax lien amounts apply to bankruptcy tax liens.

**NYCTL 1998-2 TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – TAX LIENS RECEIVABLE (Continued)

The Trust has the right to foreclose and take title to properties for which related tax lien collection efforts are unsuccessful. Such properties are referred to as real estate owned ("REO"). As of June 30, 2014 and 2013, the Trust did not have title to any properties.

The Trust had agreements with both XSPAND, Inc. and Mooring Tax Asset Group for servicing, managing, maintaining custody of certain documents, and collection activities on its tax liens

As of February 28, 2013 a Servicing and Transfer Agreement was entered into between XSPAND, Inc., Mooring Tax Asset Group and Bank of New York Mellon. As XSPAND has decided to withdraw from the business of servicing tax liens, the Servicing and Transfer Agreement set a Transfer Date of February 28, 2013 for the transfer of the tax liens serviced by XSPAND between Mooring Tax Asset Group and Tower Capital Management, LLC, a new servicer of the Trust in fiscal year ended June 30, 2013. As of June 30, 2013 the Trust had no tax liens being serviced by XSPAND.

As of June 4, 2013, the Servicing and Transfer Agreement of February 28, 2013 was amended to include Brownfield.

As of June 4, 2013, a bill of Sale was entered into by the Trust and its component unit, Brownfield, of which the Trust is the sole member. Brownfield purchased \$71,053,270 of environmentally challenged tax liens. The Trust, as the seller, received 100% membership interest in Brownfield.

The Trust has signed Purchase and Sale agreements with the City of New York for the sale of tax liens directly to the Trust. The Trust received tax liens of \$45,964,276 and \$15,293,056 for the years ended June 30, 2014 and 2013, respectively.

The Trust may be unable to recover the amount of certain tax liens, including accumulated interest and capitalized expenses, when the value of the related property is less than the amount of the tax lien, where other tax liens have legal priority over the Trust's tax liens, or where the court awards a reduced expense amount. The Trust has recorded an allowance for uncollectible tax liens of \$351,875,251 and \$261,010,246 as of June 30, 2014 and 2013, respectively.

The changes in the tax liens receivable for the fiscal years ended June 30, 2014 and 2013 were as follows:

	<u>Gross tax lien receivable balance</u>
Balance as of June 30, 2012	\$ 411,410,810
Add: Tax Liens received form the City of New York	15,293,056
Accrued interest on outstanding liens	54,588,316
Less: Receipts in satisfaction of liens	(42,899,781)
Write-offs of uncollectible and defective liens	<u>(25,131,869)</u>
Balance as of June 30, 2013	413,260,532
Add: Tax Liens received form the City of New York	45,964,276
Accrued interest on outstanding liens	71,528,939
Transfer from NYCTL 2011-A Trust	55,397,165
Less: Receipts in satisfaction of liens	(43,011,185)
Write-offs of uncollectible and defective liens	<u>(11,183,157)</u>
Balance as of June 30, 2014	<u>\$ 531,956,570</u>

**NYCTL 1998-2 TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 – LITIGATION

A number of parties contesting the foreclosure of tax liens previously sold by the City have challenged, among other things, (i) the power of the City to sell tax liens to the trusts, (ii) the power of the City to sell tax liens when some tax liens are less than a year old, (iii) the enforceability of tax liens when a tax *certiorari* challenge is pending, (iv) the power of the City to restore tax charges that were not previously billed, (v) the 5% surcharge and the 9% or the 18% interest rate on the tax liens, (vi) the standing of the indenture trustee to foreclose on the tax liens, (vii) the priority of the tax liens over other liens, and (viii) failure of the City to give proper or adequate notice of the tax lien sale. In addition, legal challenges to the collection of the tax liens have alleged violations of the Federal Fair Debt Collection Practices Act, the Truth in Lending Act, the New York General Business Law, and the New York General Obligation Law; breach of contract; and unjust enrichment. The Trust and the City are defending against all such claims and do not expect them to be successful. To date, no such action or challenge has been successful after completion of the appeal process. Certain of such parties have also asserted individual defenses such as improper billing, full or partial payment, tax-exempt status, the existence of forbearance agreements, or inadequate service of process. The outcome of these challenges is not expected to have a material negative impact on the Trust, as the City is required to redeem or replace defective liens.

NOTE 7 – ASSIGNMENT AND ASSUMPTION AGREEMENT

The Trust entered into an agreement (the “2013 Agreement”) with NYCTL 2011-A Trust (the “2013 Transferee”) dated and effective as of November 29, 2013, whereby the 2013 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2013 Agreement, the Trust will pay all administrative expenses of the 2013 Transferee incurred after November 29, 2013 and any costs associated with the transfer.

A summary of the assets and liabilities transferred from the 2013 Transferees on November 29, 2013 is as follows:

ASSETS:	
Cash and cash equivalents	\$ 96,221
Investments	10,807,366
Tax liens receivable – net of \$6,847,945 allowance	<u>48,549,220</u>
TOTAL ASSETS	<u>59,452,807</u>
LIABILITIES:	
Accounts payable and accrued expenses	65,968
Overages due to taxpayers	(19,284)
Residual liability due to Water Board	<u>9,041,313</u>
TOTAL LIABILITIES	<u>9,087,997</u>
NET POSITION	<u>\$ 50,364,810</u>

NOTE 8 – SUBSEQUENT EVENTS

Additional Receipt of Tax Liens

In July 2014, the Trust received additional tax liens of approximately \$4,387,000.

Distributions

In August 2014, the Trust made a distribution to the City of New York and the Water Board in the amount of \$5,854,472 and \$602,833, respectively, from the direct sale of tax liens. Subsequently, the Trust made additional distribution to the City of New York and the Water Board in the amount of \$5,962,054 and \$1,344,385, respectively.

NYCTL 1998-2 TRUST
SUPPLEMENTAL SCHEDULE
SCHEDULE 1 - CHANGES IN RESIDUAL LIABILITY DUE TO WATER BOARD
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Residual Liability Due to Water Board
Balance at July 1, 2012	\$ 35,140,659
Net change in net position	3,010,081
Distributions	(7,918,789)
Balance at June 30, 2013	30,231,951
Tax liens received from The City of New York	4,780,285
Net change in net position	(2,986,486)
Distributions	(7,520,335)
Transfer from NYCTL 2011-A Trust	9,041,313
Balance at June 30, 2014	\$ 33,546,728

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Wilmington Trust Company
NYCTL 1998-2 Trust:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States financial statements of the governmental activities and each major fund of the NYCTL 1998-2 Trust (the Trust), a blended component unit of the City of New York, as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Trust's internal control and compliance. Accordingly this communication is not suitable for any other person.

Toski & Co., CPAs, P.C.

Williamsville, New York
October 6, 2014